

Europe COVID-19 tracker

If it's not one thing, it's another

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Economics - Europe

- ◆ COVID-19 case numbers in the Big Four plus UK are down by almost 50% from their Omicron peak
- ◆ But inflation pressures persist, with the UK's annual CPI rate rising to a 30-year high in January
- ◆ We have revised up our forecasts for interest rates – but not as much as the markets have revised theirs

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Infection rates still on the decline...

First, the good news. COVID-19 case numbers have continued to fall. For the Big Four plus UK, new daily infections are down by almost half compared with their January peak (chart 1), with notable declines in France and the Netherlands in particular over the last week (chart 2). While surveys suggest that case numbers in the UK might be considerably higher than the official data (chart 5), the falling ICU occupancy rates provide considerable comfort (chart 3), as do the data showing that excess deaths were below their five-year average for the fifth consecutive week in early February.

And while some countries are further along in their unlocking journey than others, Europe is moving firmly towards the exit: Germany has today announced a staged removal of restrictions, with a view to lifting all but a few basic measures (mask wearing, etc.) by 20 March (BILD, 16 February). Meanwhile, Switzerland has announced the end of the usage of the COVID-19 pass and restrictions on gatherings, effective from 17 February 2022 (Swiss Federal Council). France has also eased restrictions, allowing nightclubs to reopen and relaxing requirements on mask usage from 16 February, as planned (see Reuters, 20 January 2022).

... freeing us up to worry about inflation instead

While we may be able to worry a little less about COVID-19, though, the spectre of inflation has only intensified since our last update. The latest Banque de France surveys suggest that any waning in supply pressures may have been short-lived (charts 21-23), energy prices have edged higher (chart 18) and UK CPI inflation rose to a fresh 30-year high of 5.5% y-o-y in January (chart 29). There was also ample evidence of labour market pressures in the UK data release earlier this week (charts 26-29).

This is an abridged version of a report by the same title published on 16-Feb-22. Please contact your HSBC representative or email AskResearch@hsbc.com for more information.

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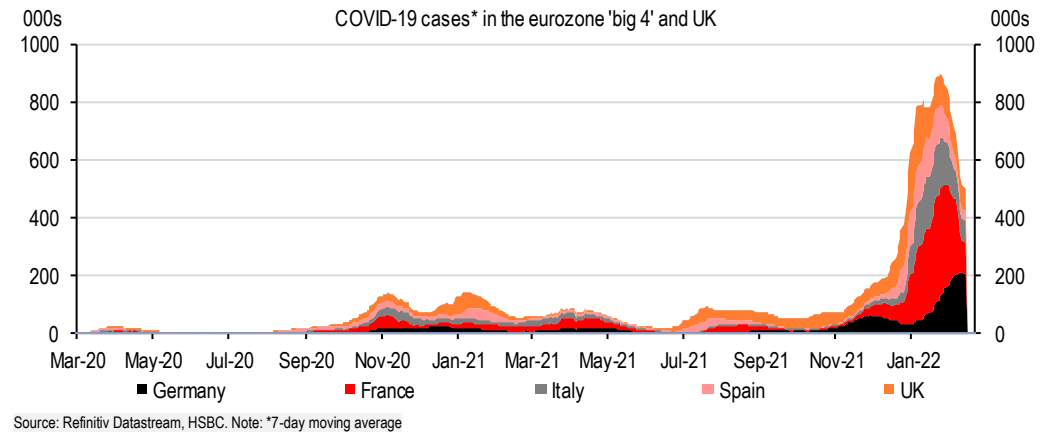
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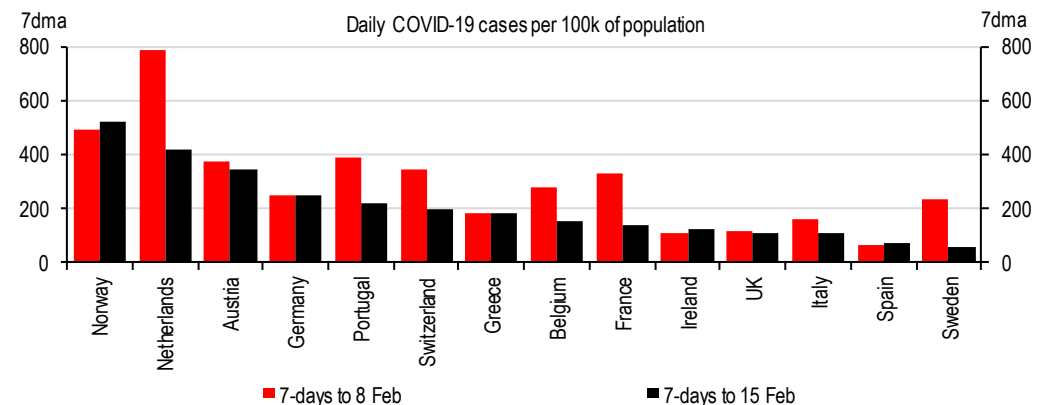
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New cases remain high, but are falling in most large economies

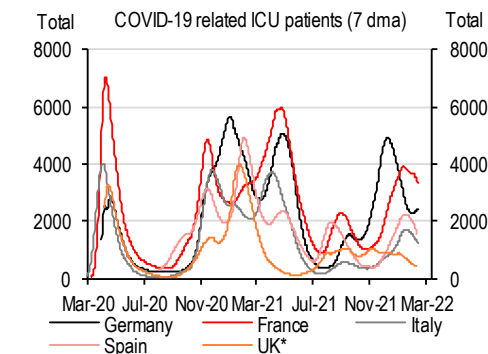
1. COVID-19 case numbers are down 48% for the Big 4 plus UK since the Omicron peak in January



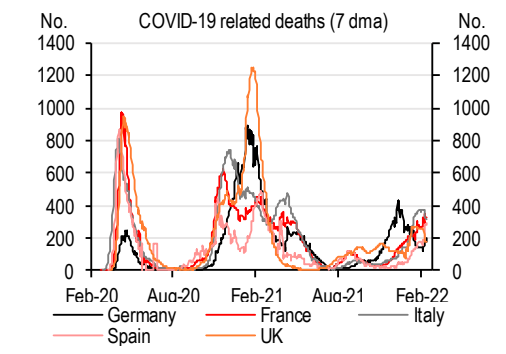
2. Cases fell in most countries, particularly the Netherlands and France



3. ICU numbers appear to have peaked, notwithstanding a small pick-up in Germany



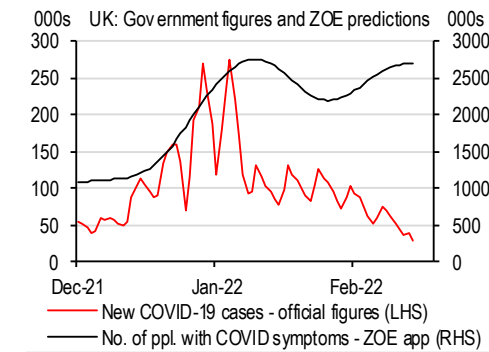
4. Deaths remain much lower than in past waves



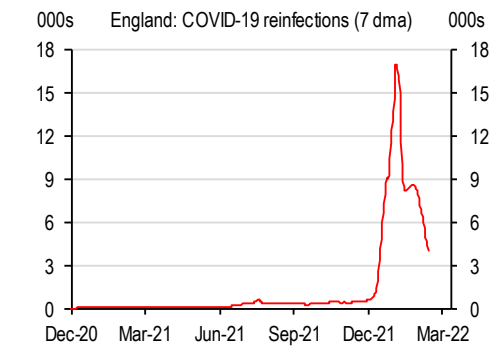
We acknowledge the assistance of Yash Dewan, HSBC Bank plc, in the preparation of this report.

New cases are down, but so is testing

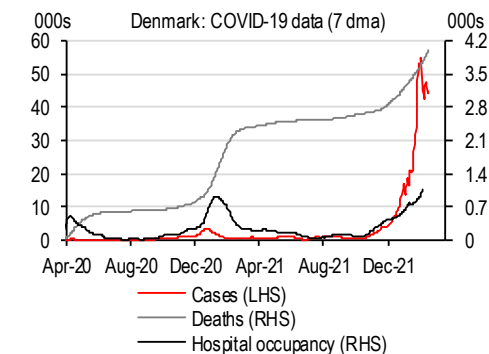
5. The ZOE app suggests UK case numbers may be higher than the official data suggest



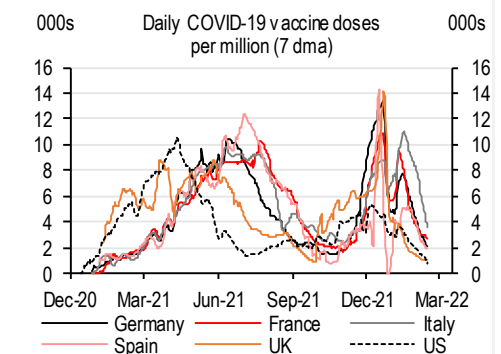
6. New reinfection data for England highlight the effect of Omicron on people who had already had COVID-19



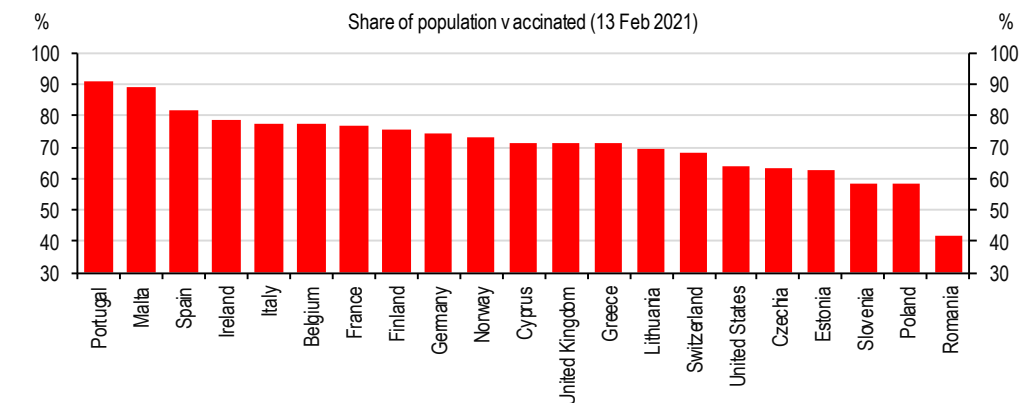
7. Case numbers in Denmark appear to have fallen back after a very steep rise earlier this month



8. Vaccine delivery continues to slow, now that most people are fully vaccinated

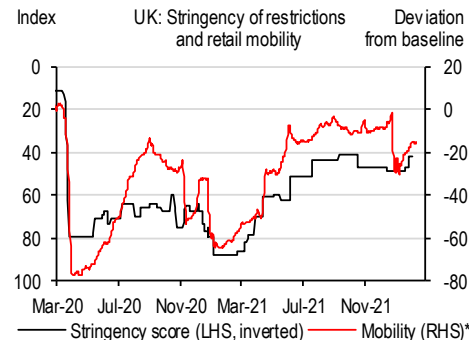


9. Vaccination coverage remains relatively low in parts of Eastern Europe



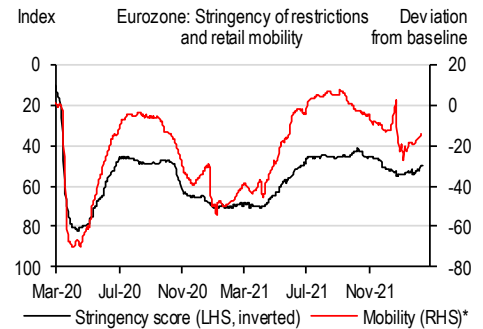
Omicron has left its mark on activity in Europe

10. Restrictions have eased in the UK...



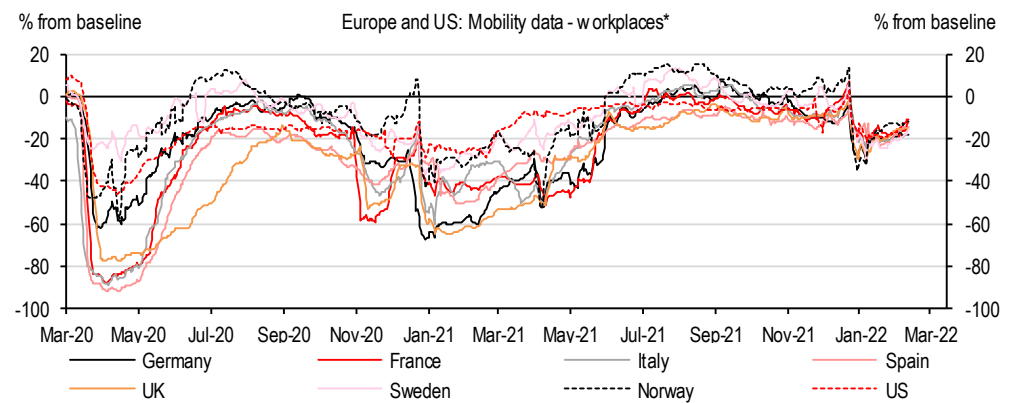
Source: Google mobility, Oxford COVID-19 Government response Tracker, HSBC
 Note: *7-day moving average.

11. ...and in the eurozone, albeit to a somewhat lesser extent



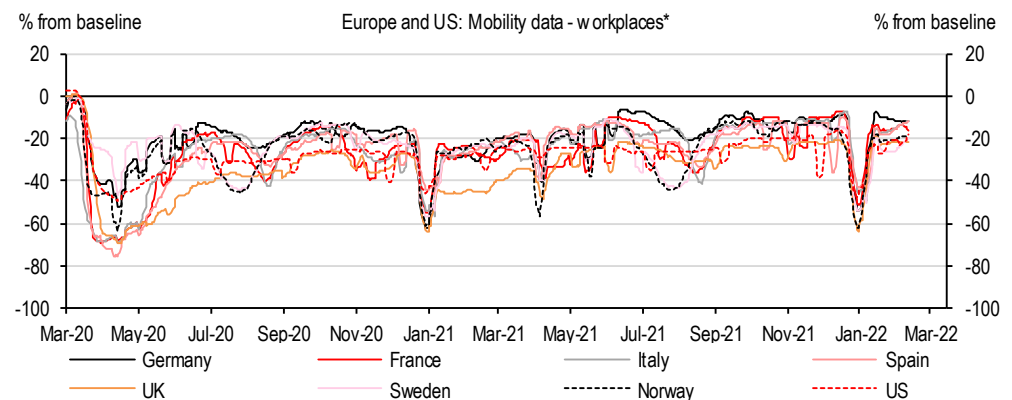
Source: Google mobility, Oxford COVID-19 Government response Tracker, HSBC
 Note: *7-day moving average

12. Retail and recreation mobility picked up in January, but remains below November levels



Source: Google, HSBC. Note: *7-day moving average.

13. Workplace mobility has been broadly steady at H2 2021 levels



Source: Google, HSBC. Note: *7-day moving average

Restrictions leaning towards easing

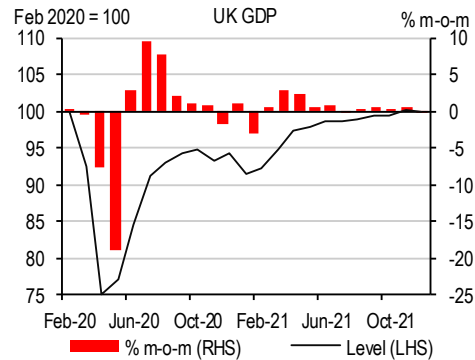
14. Latest on the restrictions from the major European countries

Country	Latest lockdown measures
Germany	<p>On its latest COVID-19 summit the heads of federal states and the German government agreed on a three-step process to gradually ease existing COVID-19 restrictions in Germany:</p> <p>First step from 17 February: Dropping contact restriction rules for fully vaccinated people for private and public meetings and allowing retail shopping without any further restrictions apart from mandatory mask wearing.</p> <p>Second step from 4 March: Re-opening of dance clubs under the 2G+ rule (double vaccinated or recovered and negatively tested or boosted) as well as easing of the rules for normal gastronomy services from 2G+ to 3G (meaning that also unvaccinated could now enter restaurants again if they provide a negative test result), allowing up to 25k spectators in outdoor sport events (and up to 6k indoors) under the 2G+ rule and mandatory mask wearing.</p> <p>Third step from 20 March: Dropping essentially all far reaching containment measures (including the ones mentioned above) which would also include the currently applied rather strict restrictions for unvaccinated people e.g. meeting with a maximum of two people from different households and to provide a negative COVID-19 test to use public transport.</p> <p>However, steps two and three are still subject to a non-concerning hospitalisation situation. Moreover, at least some basic measures like mandatory indoor mask wearing including on public transport will be upheld beyond 20 March. More restrictive measures in general could also still be applied on a local or federal state level depending on the respective infection situation.</p>
France	<p>The COVID-19 health pass ("passe sanitaire") introduced in July 2021 to access some (museums, cinemas, bars, restaurants, large shopping malls, hospitals and some long-distance transport such as aeroplanes and trains) has been tightened and converted since 24 January into a vaccine pass ("passe vaccinal") for people aged above 16. This pass may be obtained with a proof of vaccination or recent recovery, but no longer with a negative test. Moreover, since 15 January, a booster is required 7 months after the last dose to maintain the pass. Regarding travel, all non-EU travellers coming to France have to present a negative test, even if they are vaccinated.</p> <p>Conversely, self-isolation rules were loosened on 3 January, due to the sharp rise in COVID-19 cases led by the Omicron variant. For infected people, the length of the isolation period has been cut to 7 days for vaccinated people, against 10 days for unvaccinated people. Besides, vaccinated people in contact with infected people don't have to quarantine if they have a negative test, contrary to unvaccinated people that have to isolate for 7 days.</p> <p>Restrictions have gradually been eased since the beginning of February. On 2 February, the mandatory rule on remote working (at least 3 days per week when possible) was scrapped (although remote working remains advised). Mandatory mask wearing outdoors (required in several departments) was also ended. Finally, current limits on large sport and cultural events (2,000 indoor, 5,000 outdoor) also end, but mask wearing for these events remains mandatory. On 16 February, nightclubs (closed since 10 December) reopened. Standing concerts and standing consumption at bars were also allowed again. Besides, mask wearing is no longer needed for places when the vaccine pass is required. Finally, health protocols at schools will become less strict at the end of February.</p>
Spain	<p>Since May, Spain hasn't been in a state of emergency and the nationwide curfew has ended. As the number of COVID-19 cases has started to increase again, though, some restrictions have been reintroduced in some areas. Most regions have now introduced a 'green pass' requirement for entering restaurants, bars and all cultural and sports events. Some regions have also imposed additional limits on: the opening hours of bars, restaurants and clubs (2am or 4am if all the staff are vaccinated or had a negative COVID-19 test); the size of gatherings (8 or 12 people, depending on the region) and the capacity of buildings for events. Catalonia is the region which has imposed the toughest restrictions, imposing a 1am curfew in the cities with higher infection rates and limiting gatherings to 10 people. Asturias has closed bars and restaurants indoors. Other regions have imposed other restrictions to the opening hours of restaurants bars and clubs. From 8 February masks are no longer required outdoors.</p>
Italy	<p>Since mid-September, a 'green pass' (full vaccination or negative COVID-19 test) has been required to go into restaurants and bars (indoors), theatres, cinemas public transport, as well as some outdoors venues, and attend concerts and sporting events. Since 15 October, it has also been a requirement for all public and private sector workers, with high penalties for the non-compliant. This was tightened on 15 December with the introduction of a 'super green pass', restricting access to social events (cinemas, restaurants, theatres, etc.) to people who are vaccinated or have had the virus in the past six months – so it's no longer enough to have tested negative. A negative test is still sufficient to go to work though. Restrictions have been tightened further since 10 January with the super-green pass requirement extended to several professions (health, education, military, public facing jobs) while the vaccination has been made mandatory for people of more than 50 years of age. From 20 January, the super green pass will also be required for hairdressers, beauty salons and all retail shops, and from 1 February for all public offices, postal services and banks. From 11 February masks are no longer required outdoors.</p> <p>Currently, 15 of the 20 Italian regions are in the 'yellow' category, with only limited restrictions, and five in the 'orange' one with a further extension of the super green pass to restaurants, shopping malls, and mobility across different municipalities limited to essential reasons. As for international travel, arrivals from the EU no longer have to quarantine, but they are required to show a negative COVID-19 test undertaken within 48 hours before departure (from 16 December even if fully vaccinated).</p>
UK	<p>Mask wearing is mandatory in Scotland and Wales, but most other restrictions have been lifted in all four nations of the UK. Travel rules have also been relaxed. As of 11 February, fully vaccinated travellers will no longer have to take post-arrival tests or quarantine on arrival. Unvaccinated travellers will no longer need to isolate or take a test on day eight after arrival (though they will still need to take a pre-departure test and post-arrival PCR by day two). There are still separate rules for 'red list' countries, but there are currently no countries in that category.</p> <p>UK PM Boris Johnson has said that he is hoping to let all COVID-19 rules lapse – including self-isolation for those testing positive – towards the end of February.</p>

Source: Country data, HSBC

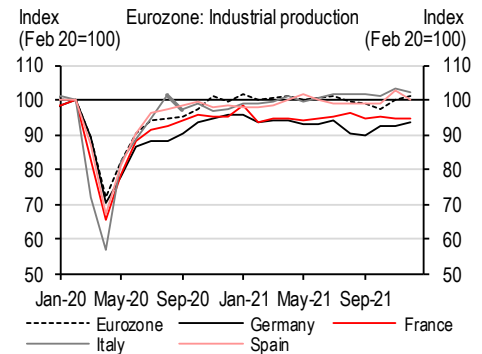
Activity on track, but energy imports getting expensive

15. UK GDP fell 0.2% m-o-m in December – not bad considering the Omicron factor



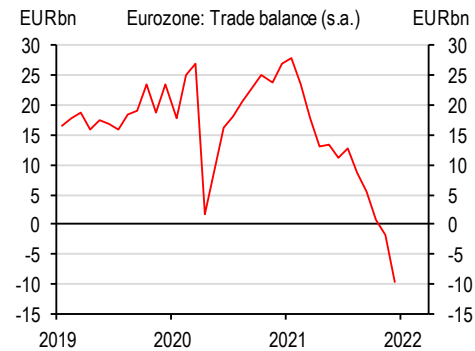
Source: Refinitiv Datastream, HSBC.

16. Eurozone IP had a third strong month of growth in December



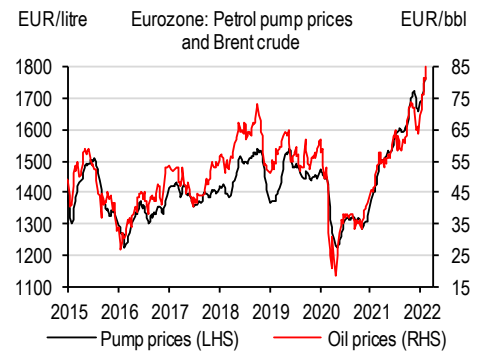
Source: Refinitiv Datastream, HSBC.

17. However, the trade position has deteriorated...



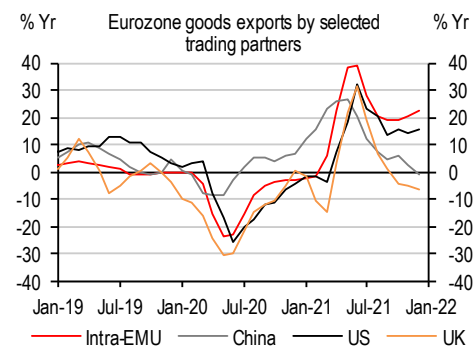
Source: Refinitiv Datastream.

18. ... driven by higher energy prices



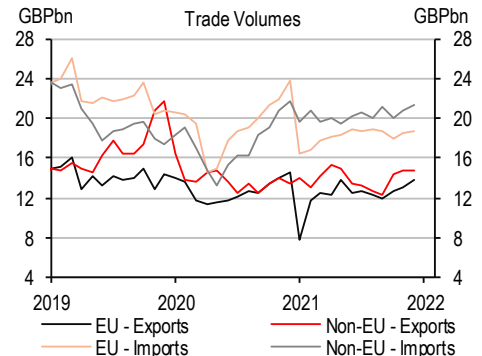
Source: ECB, Refinitiv Datastream, HSBC.

19. Eurozone trade data for December suggest Brexit might be having an effect...



Source: Refinitiv Datastream, HSBC.

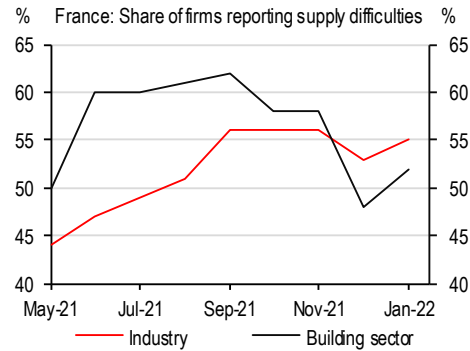
20...backing up the story told by latest UK trade data (for December)



Source: Refinitiv Datastream, HSBC.

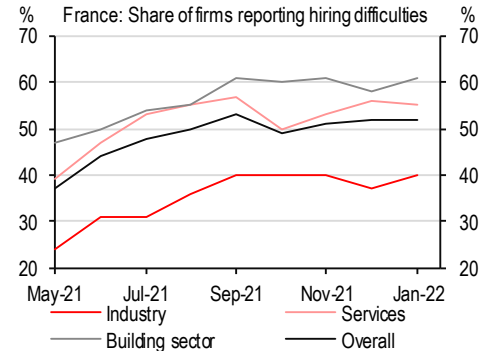
Supply woes continue

21. The French data suggest the December improvement in the supply situation may have been temporary...



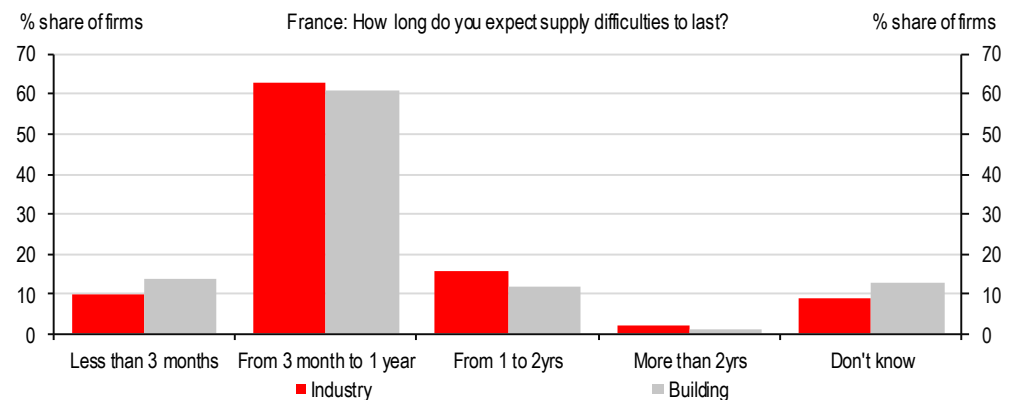
Source: Bank of France.

22. ... with pressures also evident in the labour market



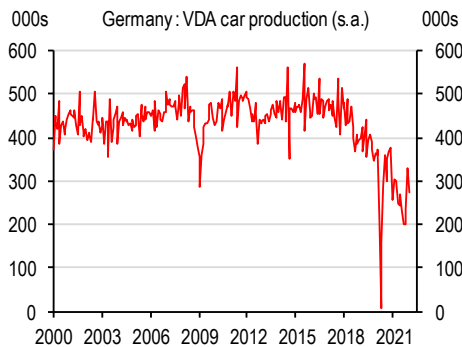
Source: Bank of France.

23. Most firms expect the difficulties to persist for at least three more months and possibly up to a year



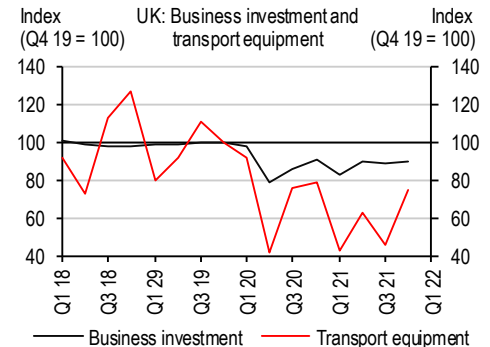
Source: Bank of France.

24. German car production also fell back after an improvement in December



Source: Macrobond, HSBC.

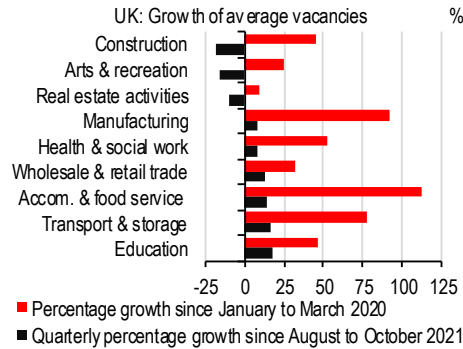
25. UK transport investment also points to supply woes



Source: ONS

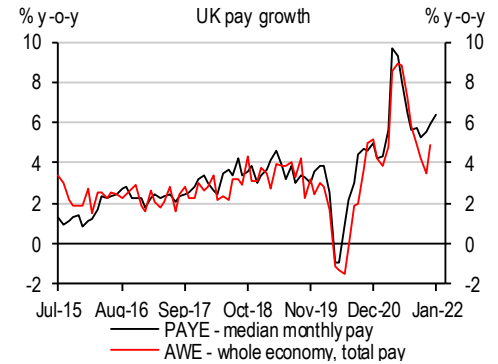
Seemingly unstoppable rates markets

26. UK vacancies stood 65% above their pre-pandemic level in January...



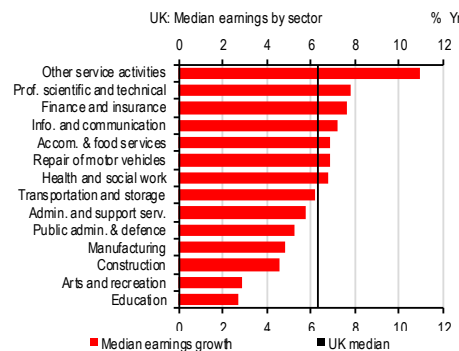
Source: ONS.

27. ... and PAYE pay data paint a slightly more upbeat picture than the AWE data



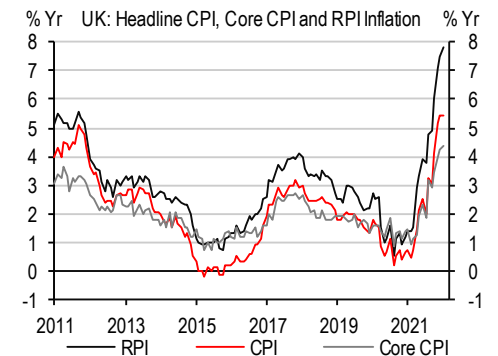
Source: ONS, Refinitiv Datastream.

28. The latter suggest professional, financial and other services have seen the strongest pay growth



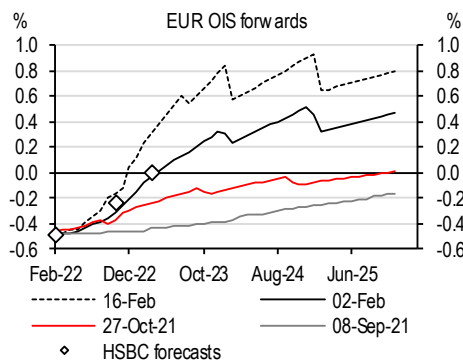
Source: ONS.

29. But whichever measure you look at, January's CPI inflation of 5.5% will erase a good chunk of it



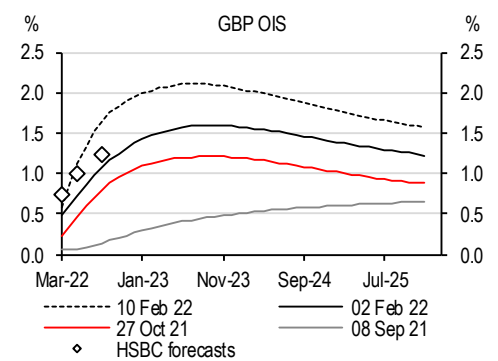
Source: Refinitiv Datastream, HSBC.

30. The market expects the ECB to go much further than we do...



Source: Bloomberg, HSBC forecasts. Note: The historical OIS curves are taken from the day before the respective ECB meetings.

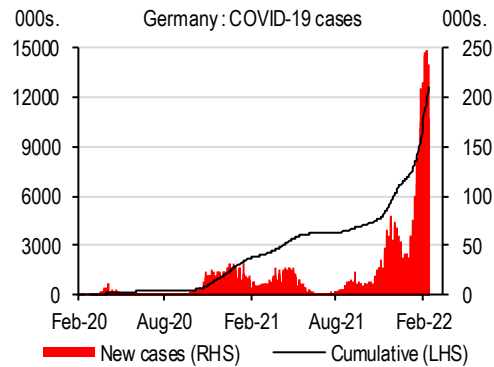
31. ... and the same is true for the BoE



Source: Bank of England, HSBC. Historical OIS curves match those from chart 30 for comparability

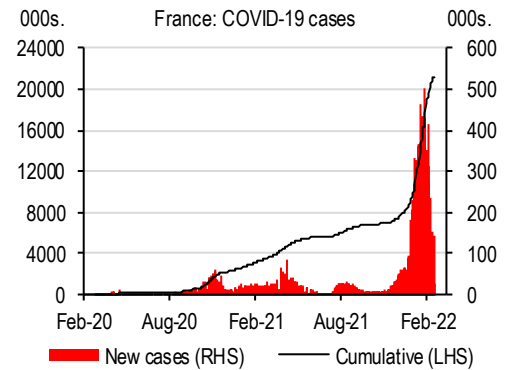
COVID-19 in Western Europe

32. Case numbers remain elevated in Germany...



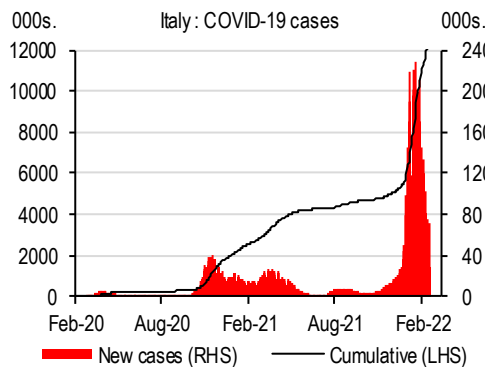
Source: Refinitiv Datastream, HSBC.

33. ... but have more clearly peaked in France...



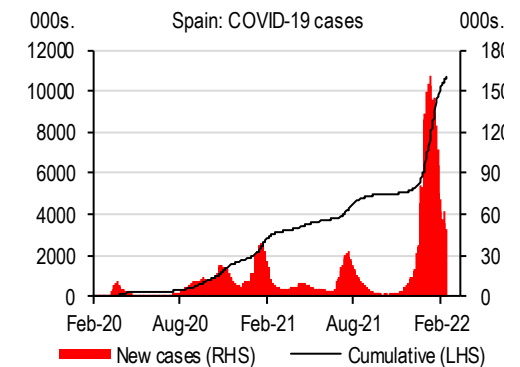
Source: Refinitiv Datastream, HSBC.

34. ...Italy...



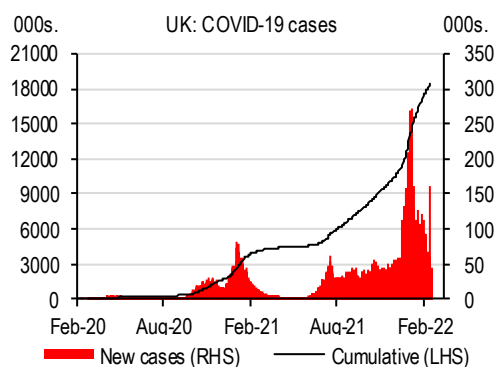
Source: Refinitiv Datastream, HSBC.

35. ...and Spain



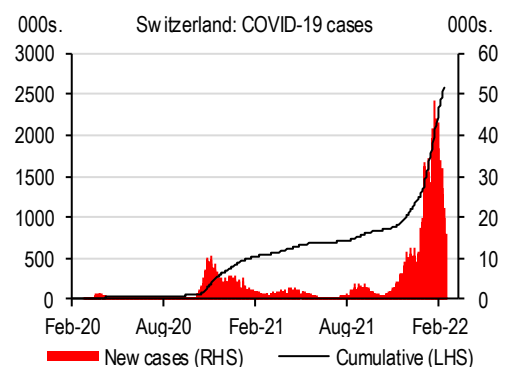
Source: Refinitiv Datastream, HSBC.

36. UK case numbers are well below early January levels



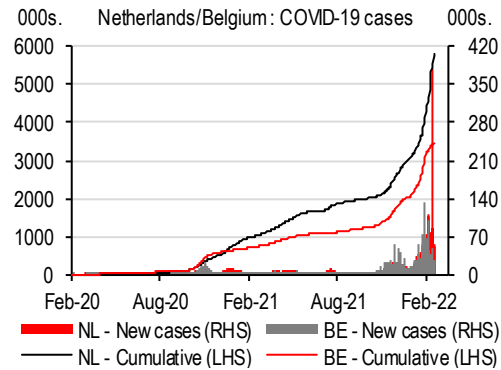
Source: Refinitiv Datastream, HSBC.

37. Switzerland appears to be past the peak



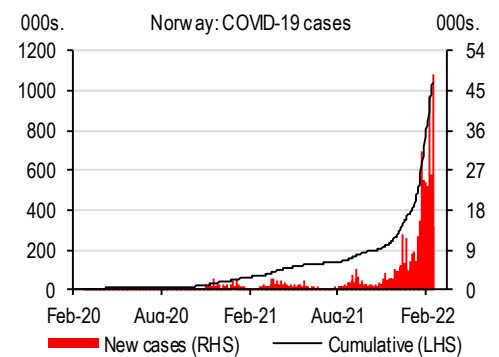
Source: Refinitiv Datastream, HSBC.

38. Cases have fallen in the Netherlands in the last week



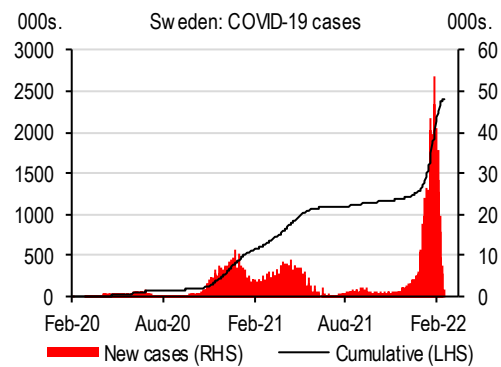
Source: Refinitiv Datastream, HSBC.

39. Cases in Norway may be peaking, but have not yet fallen significantly...



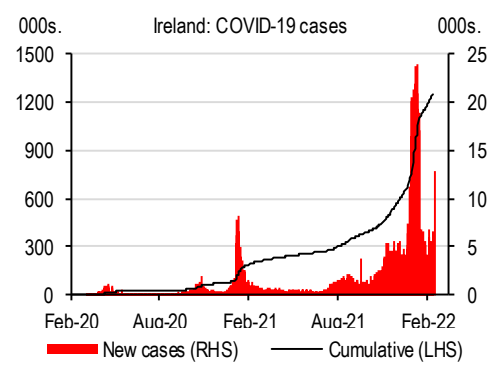
Source: Refinitiv Datastream, HSBC.

40. ...whereas in Sweden they are down sharply



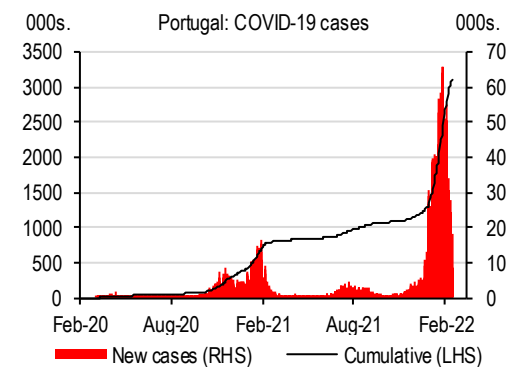
Source: Refinitiv Datastream, HSBC.

41. Ireland is well past its recent peak



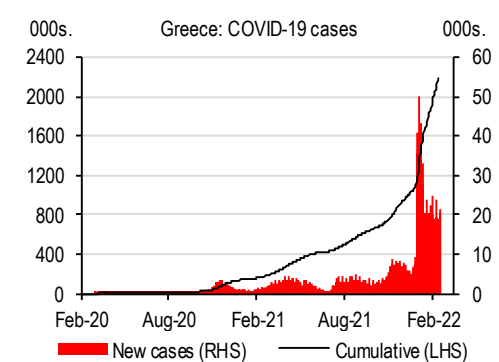
Source: Refinitiv Datastream, HSBC.

42. Cases in Portugal may be coming off their highs



Source: Refinitiv Datastream, HSBC.

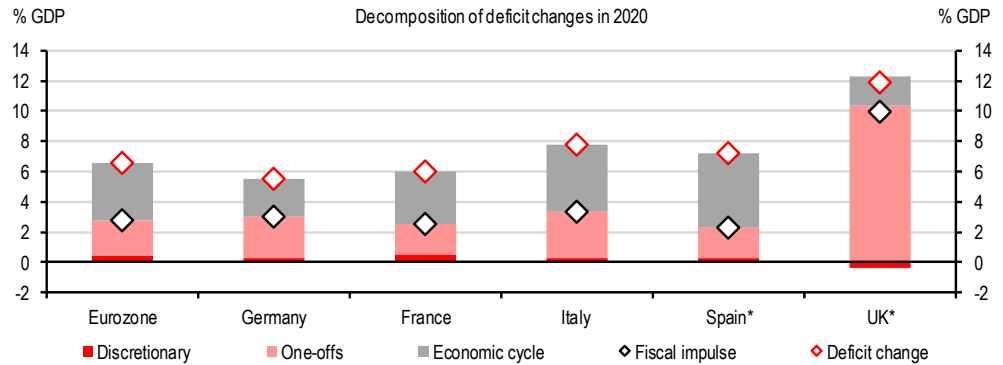
43. Greece is past its peak



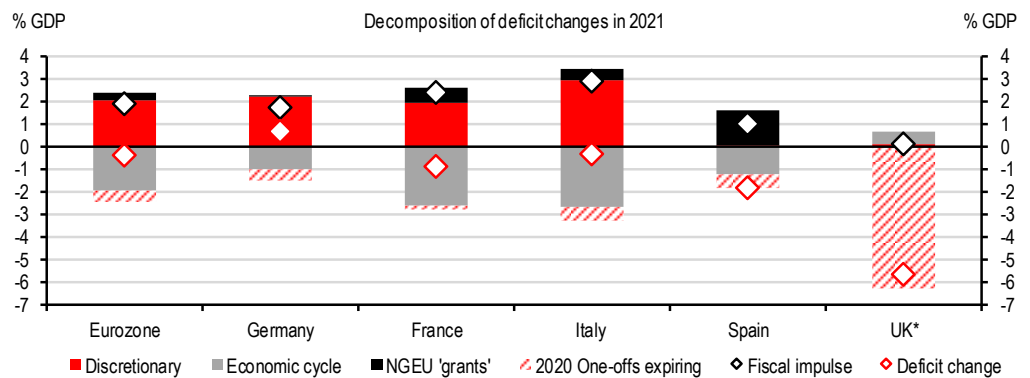
Source: Refinitiv Datastream, HSBC.

Fiscal measures (in the Big 4 eurozone countries and the UK)

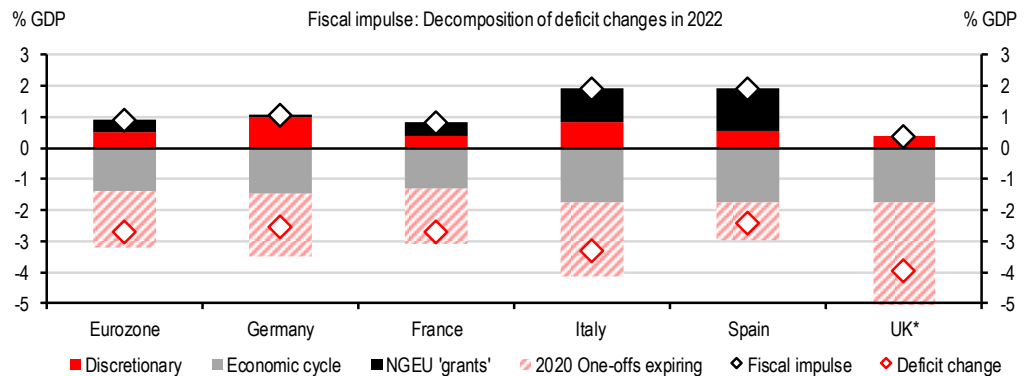
44. Fiscal policy was highly supportive of growth last year even if a significant chunk of support did not make it into the economy due to restrictions and was actually saved



45. Stronger-than-anticipated growth helped contain the fiscal deficits in 2021 despite a strongly expansionary fiscal policy, particularly in the eurozone



46. In 2022, the domestic fiscal policy stance should remain mildly expansionary in the eurozone, thanks also to the support provided by the Next Generation EU (NGEU) fund



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